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INCOME GAINS FOR FARMERS IN 1972

Good news dominates the economic outlook for farmers this year: A substantial increase is predicted for realized net farm income over last year's $15.7 billion performance. Farmers will make more off the farm, too, interest rates have eased, and the increase in production costs appears to have slowed. A glut of grain and the effects of prolonged shipping strikes shadow the outlook. Early reports indicated continued large grain plantings, but new options offered to wheat and feed grain program participants may reduce planted grain acreage below early indications.

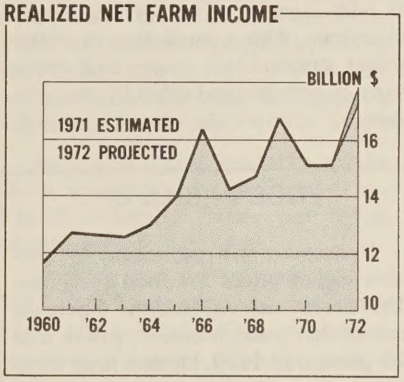
Forecasters at the 50th Annual Outlook Conference at USDA this February called for $1½ to $2 billion more net farm income during 1972. The total volume of sales from America's 2.8 million farms may not increase, but prices will rise and Government payments will jump.

More From Livestock

Receipts from livestock and product marketings may rise by around $2 billion over last year's $29.7 billion. Continued strong consumer demand will bid up prices on nearly the same total output of meat and poultry. Cattle receipts could gain $1 billion, with both higher prices and larger output, while higher hog prices could add $½ billion more.

Crop receipts may about match last year's $21.9 billion. Greater receipts are in store for cotton, soybeans, tobacco, and vegetables. Supplies of these crops are trim, demand is strong, and prices higher than last year. First planting indications reveal only moderate acreage increases planned for cotton and soybeans in 1972, suggesting continued tight supply-demand balances.

REALIZED NET FARM INCOME



The outlook is less optimistic for wheat and feed grains. Getting grain supplies in better alignment with demand is the biggest challenge of the year. Despite record 1971 output, grain prices have climbed more than usual from harvesttime lows, but large stocks will continue to weigh on the new season's markets. USDA's January intentions survey, a preliminary poll of farmer's thinking, showed reluctance to prune grain acreage heavily, but new options recently offered under the 1972 wheat and feed grain programs may stimulate further cutbacks.

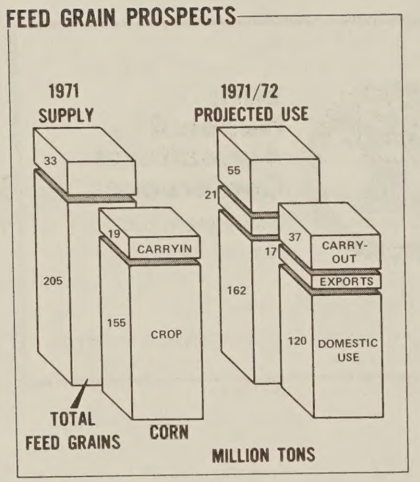
Crop prospects come into clearer focus next month with results of the March planting intentions survey and final sign-up for farm programs. USDA could make a final response by accepting an optional set-aside offered to feed grain farmers.

Payments Rise

Government payments to farmers in 1972 could rise as much as $1¼ billion over last year's $3.2 billion. Adding this gain to the boost in receipts for livestock marketings—and little change for crop receipts—produces a gross farm income estimate $3-$3½ billion or more above 1971.

Farm costs jumped $2 billion in 1971 to $42.9 billion, keeping net income from rising. Although costs will be rising for many items this year, the overall increase should be about $½ billion less. Adding to costs will be higher feeder livestock prices, higher property taxes and wage rates, and a big boost in interest charged on record farm debt. Feed outlays will stay about the same, as lower prices are offset by heavier feeding. Inflation in prices of many purchased inputs will be held down by Phase II restraints.

With a sharp rise in total receipts outdistancing the rise in expenses, a good boost to net farm income is indicated. The forecast is for 11-14 percent higher income per farm than last year, lifting those earnings by $600 or more from last year's $6,458. And, with eased personal taxes and greater income from nonfarm sources, disposable income per capita for more than 9 million farm residents may rise $200 to around $2,900 in 1972. Even with this gain, per capita income of farm people will remain about three-fourths of the nonfarm amount.



FEED GRAIN USE RISES

Feed use this season is running 5 percent ahead of 1970/71. Domestic use is going strong, especially for corn. Heavier feeding rates per animal, with little gain in the number of livestock fed, probably account for larger feed use this season.

Export prospects have changed for the better in recent months: It looks like feed exports will equal last season's 21 million tons. Large U.S. supplies at competitive prices, big sales to Russia, and deteriorating prospects for South American feed grain crops are the plus factors.

Prices of all feed grains have strengthened since their seasonal lows last fall. January corn and sorghum prices were well below high levels of January 1971, oats were near the level of the year before, but barley was running a little above last year's price. With prices at or near loan rates, further advances in feed grain prices will be tempered by the large supplies on hand.

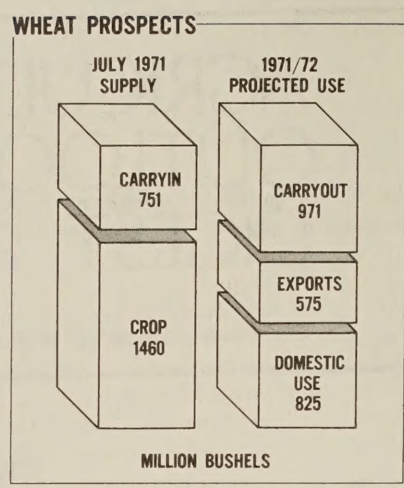
Early feed grain plans were for 1972 plantings of 122 million acres, a modest drop from last season. With a normal growing season, those acres would yield 195 million tons of grain, 10 million tons under last year's record production. The projected output would be 8 or 10 million tons over projected feed grain use next season.

The projected corn crop could be 5.3 billion bushels next fall, only a few hundred million bushels less than last year. The March prospective plantings report is likely to show smaller corn and sorghum acreage in response to new options recently offered to feed grain program participants. The offer gives growers an incentive to increase their corn-sorghum set-aside acreage by 10 or 15 percent and reduce total corn or sorghum planted by an equal number of acres.

WHEAT STOCKS BUILDING

A large supply and slack export demand are causing wheat stocks to build up. The 1971/72 season began with 2.37 billion bushels, the largest total supply since 1962/63, and it will end with nearly a billion bushels still on hand. Wheat feeding, which surged at the start because of high feed grain prices, will carry domestic use higher for the season, but exports are ailing. A big world grain supply and prolonged dock strikes have set back wheat exports.

Winter and spring wheat prices are at odds because of contrasting supply situations. With a small drop in winter wheat supplies this season and strong early-season demand aided by drought-reduced crops in the Southwest,



winter wheat prices so far have been a little higher than in 1970/71. But spring wheat output shot up in 1971 after growers responded to the new wheat program. Prices for the spring wheat crop have also been low due to extreme ergot in the crop. The European Community and Japan have resisted purchases for this season.

Even so, the season price for all wheats will average close to the $1.33 a bushel received last season and returns to growers will rise $400 million to top $3 billion, because of both larger cash receipts and greater Government payments.

New crop plantings portend a further buildup in already heavy supplies. Winter wheat producers expanded acreage by 9 percent, and with average yields, the crop could total nearly 1.3 billion bushels. On January 1, spring wheat producers said they planned to trim only 7 percent from the 1971 large planted acreage. Should acreage be as large as these early indications, total supplies next summer could reach onerous levels.

To head off excessive output, USDA is offering farmers additional payments for reducing wheat acreage below their 1971 plantings by setting aside extra acreage equal to 75 percent of their domestic allotment. Winter wheat growers may graze off or otherwise dispose of these acres, while spring growers will have to reduce their 1971 planted acreage by the amount of additional set-aside. Farmers who accept will get 94 cents a bushel times the farm yield for each acre of additional set-aside under the option.

FOOD PRICES UP

Consumers will pay about 4½ percent higher prices for food this year. This overall rise exceeds the 3-percent rise of last year; however, prices rose 5½ percent in 1970. Modest food price rises were evident in the early 1960's, but a faster tempo began in the late 1960's.

Prices of food prepared at home, the major food-price component, will rise close to 4 percent, compared with a 2½-percent boost in 1971.

Continued gains in disposable income will fuel consumer demand while food supplies remain close to 1971 levels. Higher retail prices will partly reflect higher prices at the farm level. Farmers' prices of livestock products used for food will increase. Crop food prices may rise at a slower pace than last year. The Cost of Living Council allows many farm price rises to pass through to the retail level. With the cost of marketing food expected to rise further this year, the marketing spread may also average a little higher.

CURRENT COTTON PINCH

Cotton supplies are tight as a drum this season. For the third year, weather limited yields and held the 1971 crop to 10.4 million running bales. Coupled with a small carryover, supplies dropped to around 14¾ million bales, the least in 24 years.

Smaller supplies and higher prices have hurt disappearance, which will total 6 percent below last year. The disappearance drop further reflects exports reduced by dock strikes. However, disappearance will top the 1971 crop and leave the carryover next August 1 at an estimated 3½ million bales, compared with 4¼ million last August 1.

With tight supplies, prices are relatively high at farm and market levels. Farm prices this season rose as production prospects deteriorated and supplies tightened. By mid-January, prices had reached the highest level since 1967/68.

Average spot market prices for most qualities are correspondingly strong. Initial pressure affected shorter staples. Then, as these supplies dwindled, buyers switched to medium lengths. Now, with prices on these staples up, there is concern that mills will switch to a higher percentage of manmade fibers in their fabric blends and cotton use will suffer. However, overall demand for cotton this season is strong enough to about maintain domestic mill use at the 1970/71 pace of 8.1 million bales.

ANOTHER TIGHT FIT

Even with a good boost from the 1972 crop, cotton supplies may remain tight next season. Higher prices spurred farmers' early plans to boost cotton plantings 7 percent to 13.1 million acres this year. If yields next fall are no higher than the recent 5-year average of 422 pounds per planted acre, output would increase about a tenth or more from the 10.4 million bales of 1971. This would increase supplies only a little, however, since the August 1 carryover will drop to about 3½ million bales. New options under the feed grain program may boost cotton acreage more than indicated earlier.

MORE FED CATTLE

This year, as last year, cattle prices will average higher at the same time beef output increases.

Last year's prices rose to an average of $32.42 per 100 pounds for Choice steers at Omaha, even though beef, pork, and broiler production all increased. Exceptionally strong demand was the chief price-strengthening factor, and imports were down a little.

This year, cattle slaughter could increase 3-4 percent. The annual January 1 livestock inventory showed 3 percent more total cattle and calves. The gain was in the beef herd.

Offsetting larger slaughter and a moderate increase in beef consumption in 1972, pork output will be down sharply and consumer demand for beef will stay up, maintaining a higher average fed cattle price.

In January, cattle finishers reported intentions to market 7 percent more cattle during January-March than a year earlier. Prices jumped to $35.65 for Choice cattle at Omaha in January, but probably will ease off some in February and March.

April-June prices probably will be about the same or a little above the $32.50 average at Omaha last spring, despite larger marketings.

Looking to the second half of 1972, the expansion in fed cattle likely will continue. Feed is cheaper, slaughter prices are attractive, feedlot capacity is ample, and there are record numbers of feeder cattle on hand.

HOG PRICE GAINS

Hog prices will drop from January highs in the next 2 months, but remain well above last year's first-half level.

In January, weekly slaughter plunged 18 percent from a year earlier, and barrows and gilts at 7 markets averaged $24.75 a hundredweight, $8.50 more than year before.

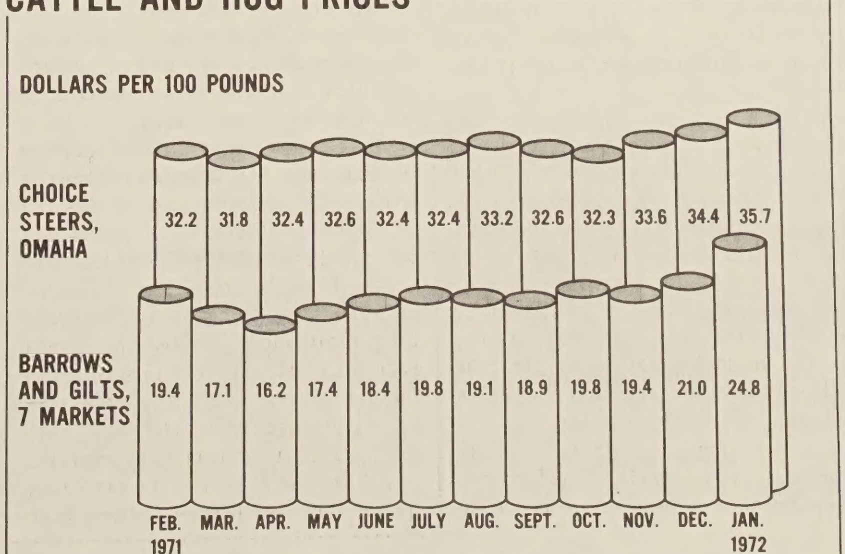
First quarter hog slaughter probably will be down sharply from a year earlier, but only about half as much as the reduction in January, and second quarter slaughter will be down 6-8 percent. Prices should ease as the marketing bulge makes its seasonal appearance in late winter, but then rise seasonally in late spring, and achieve a summer peak above 1970's peak of $25.

Third quarter hog slaughter will run well below a year earlier and prices should be sharply higher because the December 1971-May 1972 pig crop is going to be down an estimated 9 percent from a year ago.

A look at the hog-corn price ratio suggests that producers may start boosting hog breeding herds. The ratio rose from 11 in January 1971 to about 21 this January with improved hog prices and lower corn prices.

The ratio should continue to hold up favorably through summer.

CATTLE AND HOG PRICES



SAME SOYBEAN USE FOR CURRENT SEASON

Soybean use during the current marketing season, which winds up August 31, 1972, will be held to about 1.2 billion bushels by the tight supply. We are seeing a smaller crush and a corresponding decrease in soybean meal consumption, but domestic soybean oil use will be heavier and may top last season, reaching 6.45 billion pounds.

On the export scene, we'll ship out over 400 million bushels of beans this marketing year, down only a little from last season provided strikes don't flare up again at Gulf ports.

When the current season ends, stocks will be at minimum levels and well below the 99 million bushels of a year earlier.

Soybean prices displayed solid strength, averaging $2.93 in September-January. For the 1971/72 season they'll likely average about $3, highest since post-World War II days. The 1971 crop was valued at $3.5 billion, 8 percent above last season, and the second-valued crop to corn's $5.9 billion.

SOYBEAN OIL SLUMP

Soybean oil use is holding up at home, but sluggish exports are depressing prices. Concessional shipments to our 2 biggest customers, India and Pakistan, have stopped since their war, and larger supplies of other competitive oils on the world market are attracting other major buyers. Exports could wind up a fourth below last year's record 1.7 billion pounds.

Slackening export prospects are reflected in soybean oil prices. They tumbled from 14½ cents a pound (crude, Decatur) last August to 11 cents this January.

More Beans Due; Tight Supply Continues

Farmers may grow another record crop of soybeans this year. But their planting intentions reported as of January 1 wouldn't yield enough beans to relieve the tight supply situation. Prices, which are in the $3 range this season, likely will continue relatively high.

The January 1 planting intentions survey suggested a 4-percent boost in plantings to nearly 45 million acres, short of USDA's target of 48 million acres.

Applying normal yields to indications of 44.8 million soybean acres, the crop plus the prospective carryover would add up to 1.3 billion bushels, only slightly more than the current marketing year's tight supply. But, the new optional set-aside offer for corn producers plus indications of another huge corn crop could encourage diversion to more soybeans.

TOO MANY POTATOES

Potato farmers are caught up in the same cycle as a year ago—another large fall crop and low farm prices.

February 1 stocks were down only slightly from February 1, 1971, with U.S. prices also averaging lower. Smaller western production and heavy processing activity have kept prices for western russets higher than a year ago, but prices midwestern and eastern growers face are likely to continue under pressure.

FERTILIZER COSTS LEVEL

Fertilizer prices are steadying again this year after the first notable activity in 2 decades. But there is a run on phosphate materials, so it won't hurt to get orders in early.

As Rip Van Winkle did, average fertilizer prices snoozed for 20 years with barely a stir. They finally roused in 1970, then jumped 8 percent last year. Higher 1971 prices reflected record plantings of corn and other crops, increased transportation rates, and a higher floor price for Canadian potash.

A new set of circumstances has put prices back to sleep, and will likely hold them level at least for 1972. Acreage of corn, which accounts for a third of all fertilizer used, will recede this year. Transporation rates may be stable, and production capacity of both nitrogen and potash remains far in excess of farm needs. Even through there is active bidding for limited phosphate fertilizer supplies, Government price regulations will limit the headway prices make.

NITROGEN

Manufacturers continue to expand anhydrous ammonia capacity this year. Farmers will need a little less than they did last year: Reduced corn acreage will subtract from nitrogen use, but more cotton will require additional nitrogen and application rates on corn are likely to rise further.

Watch weather as the key to nitrogen prices. With good weather at application time, nitrogen prices should hold steady. But with adverse weather and planting delays, price reductions are possible.

PHOSPHATES

Limited supplies and strong foreign demand are pressuring prices of high-analysis phosphate fertilizers. Retail prices are record high for normal superphosphate. They are likely to stay strong during 1972 as manufacturing plants are closed and supplies reduced.

High prices also prevail for high-analysis superphosphates, which are supplanting normal superphosphate because of their greater economy in freight costs. Prices paid by farmers for the high-analysis materials rose to $75 per ton last April 15, and will be held near that level this year by Price Commission restraints.

High-analysis superphosphates are a key commodity in world trade. And this year world prices, unfettered by ceilings, look a lot better to U.S. manufacturers than domestic prices. A resultant heavy diversion into exports is wrenching down on domestic availability.

POTASH

Potash prices might go up slightly this year. A Canadian floor price of about 34 cents per 20-pound unit of K_2O is keeping a small price drop at refineries from reaching the marketplace. Prices may inch up this spring as planting-season pressure mounts.